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# China, Peoples Republic of

# Oilseeds and Products

# Containerized Soybean Shipments Take Off

# 2008

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**Report Highlights:**
Since 2006, there has been a sharp increase in the number of soybeans being shipped to China via containers. While the rise in the amount of soybeans being containerized is still about five percent of the total volume, it is clearly a viable shipping option that is slowly gaining share. However, this recent trend has not come without its share of problems for shippers, which mainly come in the form of paperwork problems for shipments across numerous ships and containers.

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## Executive Summary

Since 2006, there has been a sharp increase in the number of soybeans being shipped to China via containers. Trade increased from less than 50,000 MT during the 2006/07 marketing year to almost 400,000 MT during the 2007/08 marketing year and now accounts for the majority of shipping contracts. While the rise in the amount of soybeans being containerized is still only about five percent of the total volume, it is clearly a viable shipping option that is slowly gaining share. However, this recent trend has not come without its share of problems for shippers, which mainly come in the form of import paperwork problems for shipments across numerous ships and containers and inspection issue.

## Situation Outlook

Beginning in late 2007, the growth in exports of U.S. soybeans to China in shipping containers has been explosive. From Q1 2005 to Q3 2008, containerized soybean's share of U.S. exports increased from 0.01 percent to 5.4 percent of total trade.

While still rather small compared to total soybean exports, increases in containerized shipment trade provide insights into trends in China and has a greater than expected impact. First, it shows the eagerness of the shipping industry to work with non-traditional exporters to fill some of the many empty containers that return to China from the United States. Second, the Chinese buyers are a mix of large and small operators, which shows the dependence of smaller crushers farther inland and integrated livestock operations on imported soy and their willingness to become direct importers when smaller volumes can be transported more easily. Thirdly, some traditional grain exporters and traditional exporters of containerized grains have expanded infrastructure investment in this industry, especially on the U.S. West Coast, which will likely ensure that U.S. containerized exports will continue even if broader shipping price trends change or reverse.

Container shipments have become increasingly attractive during the past two years due to the rising costs of bulk shipment relative to containers. The total number of containers available in the market has outpaced the demand for shipments, driving down shipping costs and making it more profitable for small-scale consumers to receive direct shipments from foreign producers. This decrease in the cost of containers is predicted to continue over the next few quarters and will aid the upward trend in containerized soybean contracts. However, the cost of providing containers to inland U.S. elevators has been increasing. This trend prompted industry investment in loading infrastructure on the U.S. West Coast in the Pacific Northwest and near Southern California ports. Infrastructure investment will likely keep costs down for those shippers and maintain growth for containers going to Asia generally.

However, from the Chinese government side, containerized soybeans are not without problems. First, the number of Chinese ports handling containers far exceeds those specializing in grain or soybean trade. This means that China's quarantine service is stretched in inspecting cargoes coming into ports where they previously did not unload. China's insistence on conducting a quarantine check on all containers is expensive and time consuming and exacerbates the resource strain. The import paperwork can also be different because the containers from one contract may be on different boats, which causes some confusion. Second, Chinese officials have claimed that the quality of containerized shipments is uneven due to difficulties in grading the cargo and the frequency of stoppages in hot and humid tropical ports prior to final destination.

Similarly, U.S. exporters have also complained that certain Chinese practices unnecessarily limit this growing trade. First, companies feel that the mandatory quarantine check of every

container is unnecessary and increases costs and delays. Second, importers complain that informal policy requires that only one quarantine import permit (QIP) may be valid at a given time for an exporter. Thus, importers can have only one contract outstanding with a single U.S. exporter for one destination at a one time. Given the size of China, importers feel this limits their ability to sell containers in the various regional markets simultaneously.

One additional issue is the cost of biotechnology safety certificates. While a $300 certificate relative to the size and value of a Panamax vessel is not large, it can be considerable for a shipment of a small number of containers. Moreover, repeated small shipments or shipments broken into several lots adds complications to the need for the Ministry of Agriculture issued biosafety certificate. These price issues are important because container shipping companies will otherwise find it hard to continue fighting against the economies of scale that bulk shippers enjoy when shipping into a market that import such large yearly volumes of soybeans.

The growth in the container trade is not without some controversy in the general trade. Some speculate that the quality and quarantine trouble experienced in some ports now handling containerized soybeans will embolden Chinese quarantine authorities to step up inspection of bulk shipments. They say this is problematic because significant differences remain between Chinese quality and quarantine procedures and other major importer/exporters. Some in the industry also speculate that crushers outside the competitive central and south China markets encourage the government to limit the container trade because it challenges the markets that are currently farther away from the large coastal crushing capacity and are captured by domestically sourced feeds.

Regardless of the growing pains of this new trade, it seems likely to increase in importance. However, the concerns of both sides regarding its impact on Chinese quarantine inspection capacity and sampling/testing methodologies must be resolved before they become significant impediments.

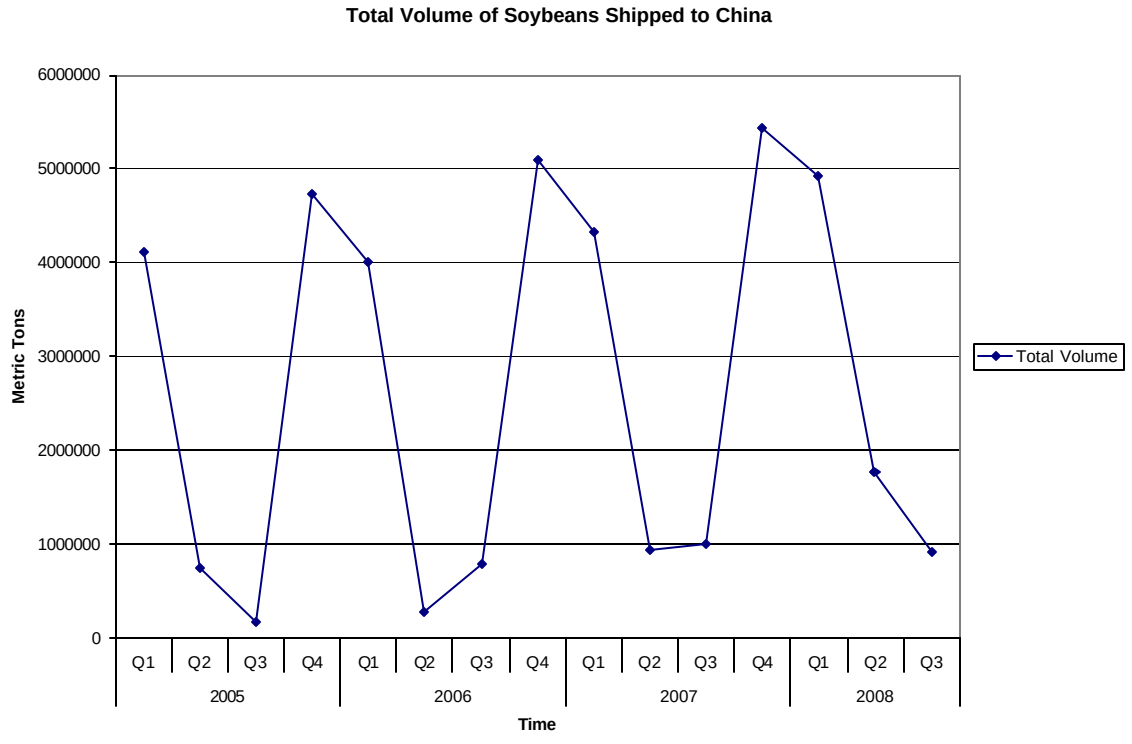
**Table 1. U.S. Soybean Exports to China, 2005-2008**

| Volume of Soybeans Shipped to China, Bulk and Containerized, MT | | | | | | |
|---|---|---|---|---|---|---|
| | | Total Volume | Bulk Volume | % of Total | Container Volume | % of Total |
| 2005 | Q1 | 4,105,135 | 4,104,604 | 99.99% | 531 | 0.01% |
| | Q2 | 733,204 | 731,771 | 99.80% | 1,433 | 0.20% |
| | Q3 | 173,308 | 173,308 | 100.00% | - | 0.00% |
| | Q4 | 4,737,862 | 4,726,319 | 99.76% | 3,143 | 0.07% |
| 2006 | Q1 | 4,002,899 | 4,001,149 | 99.96% | 1,750 | 0.04% |
| | Q2 | 264,413 | 264,413 | 100.00% | - | 0.00% |
| | Q3 | 783,930 | 783,529 | 99.95% | 401 | 0.05% |
| | Q4 | 5,094,308 | 5,087,705 | 99.87% | 6,603 | 0.13% |
| 2007 | Q1 | 4,326,821 | 4,313,576 | 99.69% | 13,245 | 0.31% |
| | Q2 | 941,161 | 931,520 | 98.98% | 9,641 | 1.02% |
| | Q3 | 1,004,945 | 978,342 | 97.35% | 26,603 | 2.65% |
| | Q4 | 5,443,837 | 5,300,186 | 97.36% | 143,651 | 2.64% |
| 2008 | Q1 | 4,924,987 | 4,788,463 | 97.23% | 136,524 | 2.77% |
| | Q2 | 1,770,556 | 1,713,983 | 96.80% | 56,573 | 3.20% |
| | Q3 | 899,252 | 851,022 | 94.64% | 48,230 | 5.36% |

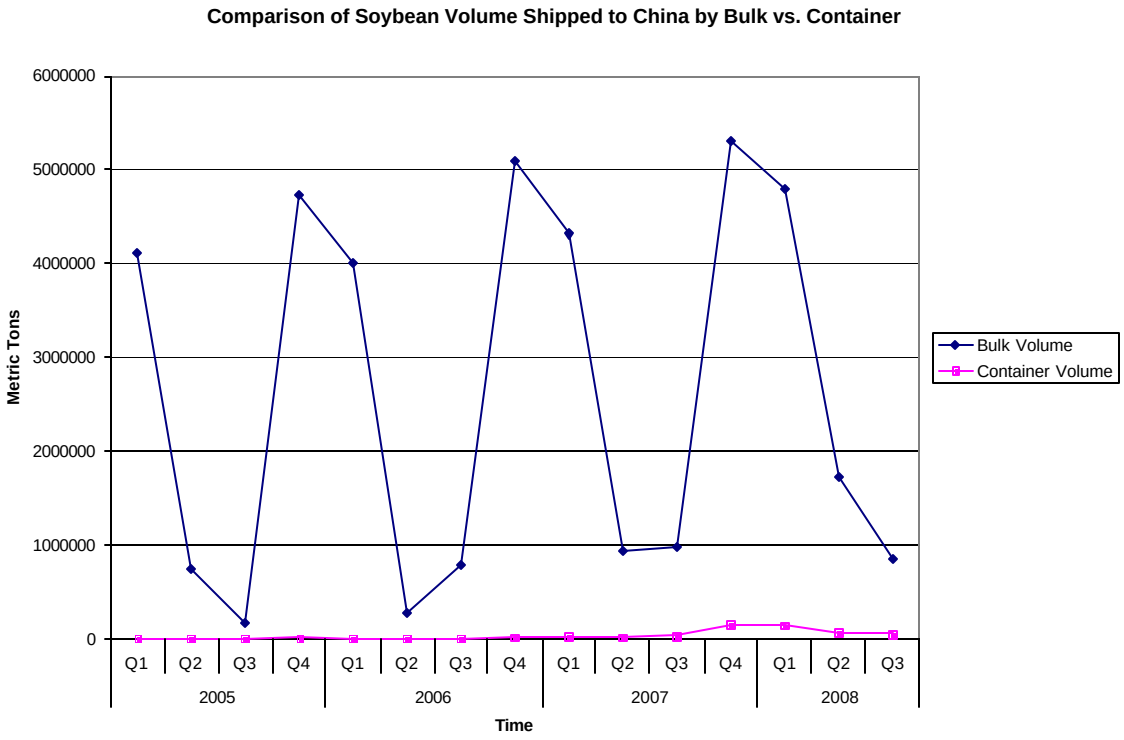
**Table 2. Soybean Contracts for U.S. Exports to China, 2005-2008**

| | | Breakdown of Soybean Shipment Contracts | | |
|---|---|---|---|---|
| | | Total Number of Contracts | Number of Containerized Soybean Contracts | Containerized Soybean Contracts Percentage of Total |
| 2005 | Q1 | 92 | 1 | 1.09% |
| | Q2 | 20 | 7 | 35.00% |
| | Q3 | 3 | 0 | 0.00% |
| | Q4 | 115 | 4 | 3.48% |
| 2006 | Q1 | 96 | 2 | 2.08% |
| | Q2 | 5 | 0 | 0.00% |
| | Q3 | 17 | 1 | 5.88% |
| | Q4 | 102 | 5 | 4.90% |
| 2007 | Q1 | 90 | 33 | 36.67% |
| | Q2 | 29 | 12 | 41.38% |
| | Q3 | 52 | 33 | 63.46% |
| | Q4 | 335 | 225 | 67.16% |
| 2008 | Q1 | 299 | 214 | 71.57% |
| | Q2 | 139 | 107 | 76.98% |
| | Q3 | 67 | 53 | 79.10% |

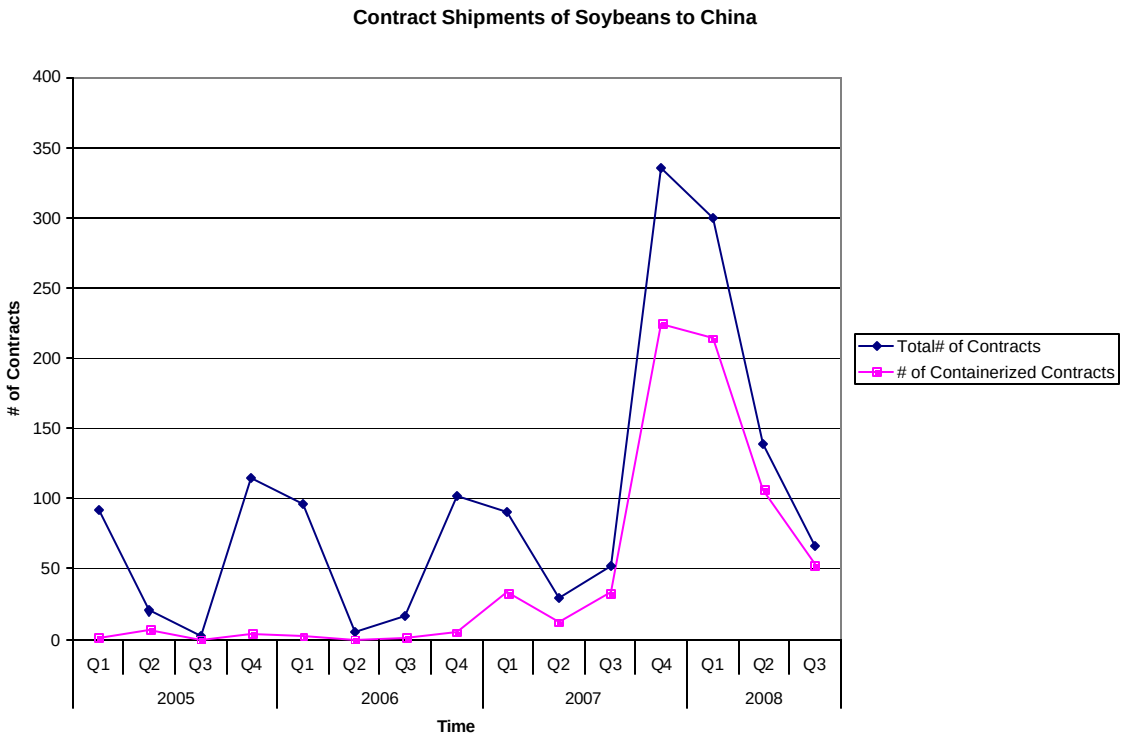
**Graph 1. U.S. Soybean Export Volume, MT, 2005-2008**



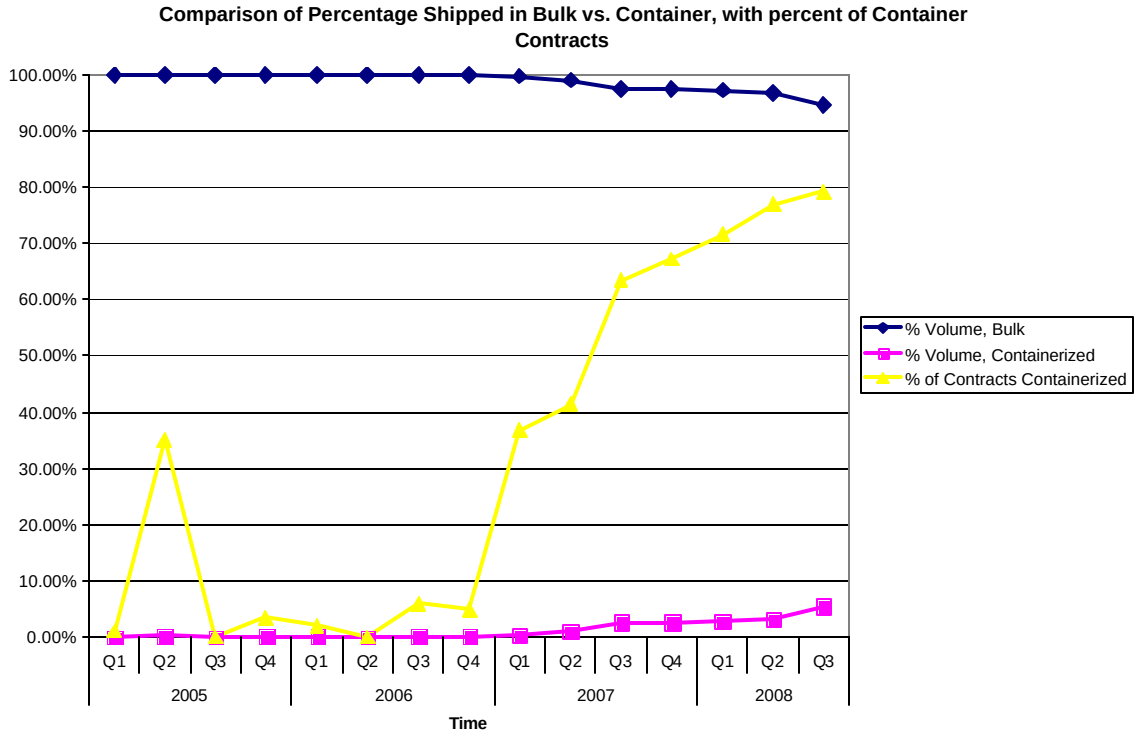
**Graph 2. U.S. Soybean Export Volume – Bulk versus Container, 2005-2008**



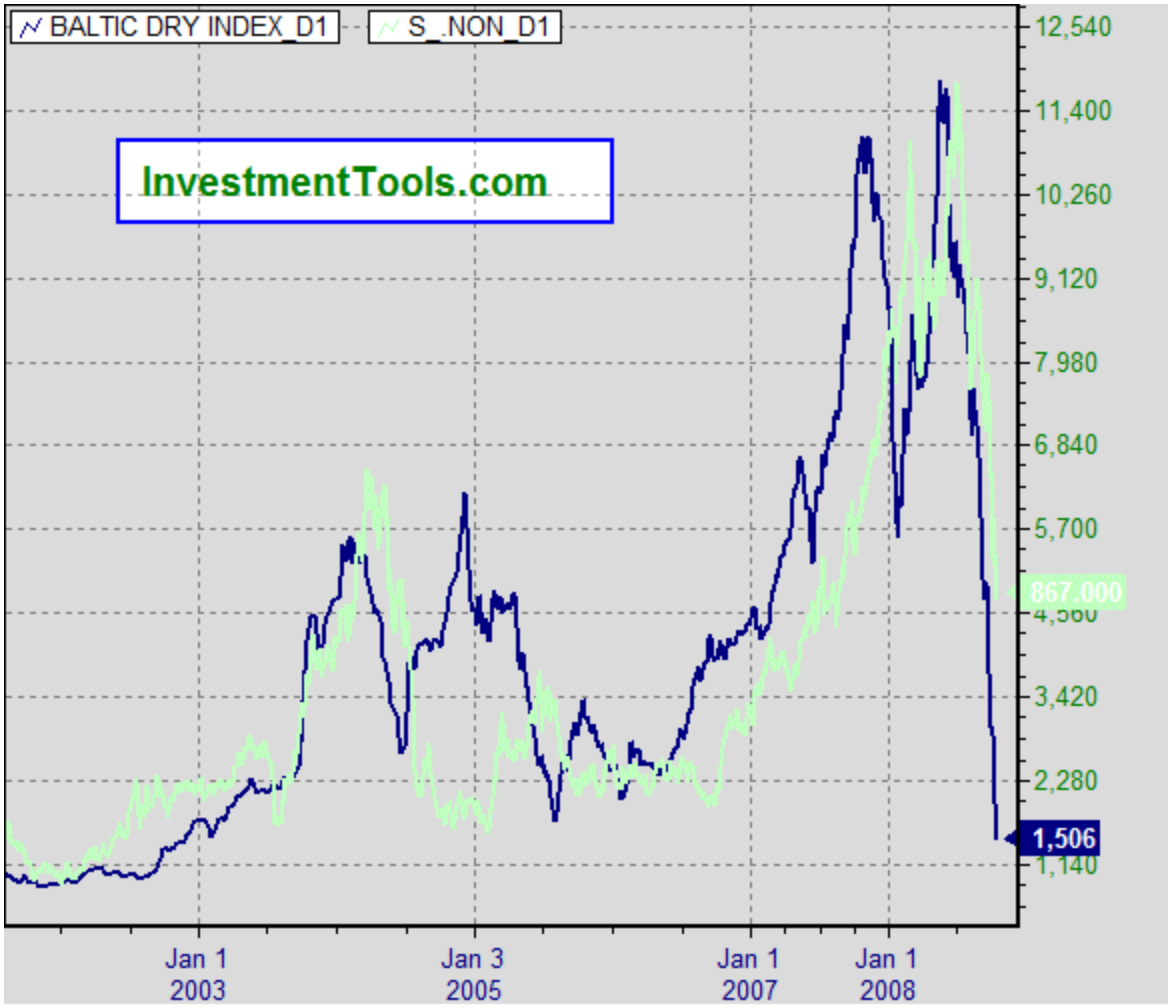

**Graph 3. U.S. Soybean Export Contracts – Bulk versus Container, 2005-2008**



## Graph 4. U.S. Soybean Exports – Bulk versus Container, 2005-2008



**Graph 5. Baltic Exchange Dry Index (BDI - Panamax) Versus Soybean Price**




Note: Soybean Price in Green; Shipping Price Uses Baltic Exchange Panamax Index

Source: Investment Tools.com

**Table 3. Freight Rates to China and Japan from U.S. Gulf and Brazil**

| | Gulf of Mexico to China | Gulf of Mexico to Japan | Brazil To China |
|---|---|---|---|
| | $/MT | $/MT | $/MT |
| 2/15/08 | | 105 | |
| 1/27/08 | 94 | | |
| 1/5/08 | 110 | | |
| 5/19/07 | 46 | 49.5 | |
| 1/6/07 | 46 | 50.5 | |
| 10/5/06 | 51 | | |
| 2/11/06 | 31 | 37.45 | 27.5 |
| 12/24/05 | | 47.50 | |
| 10/01/05 | | 46 | 32 |
| 08/01/05 | | 34 | |
| 7/26/05 | | 37.50 | |
| 5/18/05 | 57.5 | 60 | |
| 1/22/05 | 63 | | |
| 1/15/05 | 63 | | |
| 11/30/04 | 57 | | |
| 11/15/04 | 65 | | |
| 3/5/04 | 47 | 73 | |

Source: USDA, ERS